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Results-oriented annual report of the United Nations Capital Development Fund

Summary

The results-oriented annual report is prepared on an annual basis to document and analyse the performance of UNCDF in terms of programme, management and financial results against established targets. The results-oriented annual report is part of the UNCDF results-based management system and reflects the efforts of the Fund to monitor and improve performance continually in its two practice areas, decentralization and local development, and inclusive finance. In line with Executive Board decision 2008/04, the results-oriented annual report includes, as of this year, a section on the implementation of the UNCDF cost-recovery policy for consideration by the Board.

With an overall performance rate of 85 per cent in its decentralization and local development practice area and 76 per cent in its inclusive finance practice area, UNCDF achieved its programmatic targets. UNCDF also performed well in terms of its objective of geographical expansion: by the end of 2007 it had programmes in 31 of the 49 least developed countries (LDCs), and new programmes have been formulated that will increase the coverage to 39 LDCs in the first half of 2008. Total income, in terms of regular and other resources, increased by almost 30 per cent. That increase was not sufficient to reach the 2007 resource mobilization targets.

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Introduction

1. The United Nations Capital Development Fund (UNCDF) makes investments in the LDCs to support them to achieve the Millennium Development Goals and the objectives of the Brussels Programme of Action for the LDCs. Its long-term goal is to reduce poverty in the LDCs through its two practice areas – local development and microfinance. The Fund strives to be innovative, risk-taking, scalable and results-based. In line with UNCDF support for United Nations reform and increased United Nations coherence, almost all of its programmes are joint programmes with other United Nations organizations.

2. The 2007 results oriented annual report provides an overview of UNCDF performance in 2007, within a continuously changing internal and external environment. The format of the report has remained constant during the three year period covered by the UNCDF business plan for 2005-2007, "Investing in the LDCs".

3. In 2007, UNCDF expanded its activities into many new LDCs. The geographical expansion was a direct result of the vision set forward in the 2005-2007 business plan to reach 40 LDCs by 2010. By the end of 2007, UNCDF had programmes in 31 LDCs. New programmes, covering eight more LDCs, were formulated in 2007 and ready for approval in the first half of 2008, bringing the total number of LDCs covered to 39.

4. A second major achievement in 2007 was the strengthening of the strategic partnership between UNDP and UNCDF. The efforts made in bringing the two organizations strategically and operationally closer together resulted in a guidance note signed in November 2007 by UNDP and UNCDF, and sent officially to all UNDP country and regional offices. The Executive Board, at its first regular session 2008, expressed satisfaction with the progress made in finalizing the details of this strategic partnership.

5. The present report outlines the programme, management, and financial results achieved against established targets in 2007. In a follow-up to decision 2008/04, the report also includes – under the heading financial results – information on the implementation of the UNCDF cost-recovery policy.

I. Programme results

A. Performance analysis for sub-goal 1: local development

6. The UNCDF decentralization and local development practice focuses on building the capacity of local governments and other local stakeholders to foster participatory local development and thereby support the achievement of the Millennium Development Goals. Block grants (a form of grant-based, inter-governmental fiscal transfer) are provided to local governments with a dual purpose: first, they are an incentive to local governments to improve their local planning and implementation capacity; second, they enable the local governments to invest in local infrastructure and service delivery, local economic development and natural resource management, and thus respond to the priorities of rural communities. On the basis of lessons learned through piloting at the local government level, UNCDF also assists national governments in preparing national decentralization strategies and programmes that

are essential for local governments to enable delivery of development results at the local level.

7. By the end of 2007, UNCDF had local development programmes in 29 LDCs – an increase of six LDCs over the 23 supported in 2006. The new programmes formulated in 2007 reflected a qualitative and conceptual shift in programme design: UNCDF is increasingly supporting existing or emerging national programmes for decentralization and local development, and working with other development partners through joint programme modalities to bring about a decentralization and local development sector-wide approaches. This shift in design is visible in the second generation local development programmes in countries like Bangladesh, Nepal, and Senegal. Begun as pilots, those programmes have seen their innovations being scaled up to the national level. The same shift can be seen in new UNCDF-supported programmes in post-conflict countries such as the Democratic Republic of the Congo, Liberia, the Solomon Islands, and Somalia. These programmes have been designed to assume a national character from the beginning. In response to government demand, local development programmes address the broader policy and institutional issues for decentralized national systems as an integral part of the post-conflict challenges, while simultaneously carrying out local-level 'piloting' activities.

8. The results presented below highlight the performance in the ongoing local development portfolio. The information used in assessing outcome achievements was derived from self-reporting through internal monitoring systems. As a large number of new programmes were in the start-up phase, the following tables refer to performance data of 19 LDCs, which had a total of 20 programmes in 'full implementation mode' in 2007. The data reflect programme results achieved in two-thirds of all targeted LDCs, which represented 77 per cent of the total local development expenditures. Key findings of eight independent external evaluations conducted in 2007 (posted at www.uncdf.org) were systematically used to complement the interpretation of the monitoring results.

9. Both monitoring and evaluation sources confirm the innovative character of the UNCDF local development approach and the successful institutional strengthening of local partners in UNCDF-supported pilots. The evaluations demonstrate the strong comparative advantage of UNCDF in the promotion of local development through local governments, at and just above the local level. In particular, two aspects of the UNCDF approach have been identified as examples of this comparative advantage. First, UNCDF has demonstrated that devolution of funds and decision-making powers to people at the local level is a powerful approach to ensuring the delivery of services relevant to people's needs. Second, the insistence of UNCDF on linking development activities to mainstream government structures and institutions has contributed to better prospects for sustainability and ownership of the programmes at the local level. The evaluations also highlight the potential for replication on a national scale of results achieved on a pilot basis at the sub-national level.

10. The evaluators clearly point out that UNCDF programmes are implementing key principles of the Paris Declaration, such as national ownership, alignment behind national systems – particularly systems for public expenditure management – harmonization of development programmes with other partners, and establishment of an accountability framework for results. However, the sustainability of results achieved in strengthening management capacities at local and national level is constrained by the limited life span (five

years) of UNCDF programmes and the levels of resources invested, compared to the long-term challenges of effective decentralization and local development.

11. Evaluations also revealed concerns about the extent to which UNCDF programmes – with their limited investment resources – can contribute significantly to poverty reduction. Further efforts are required to establish pragmatic baseline data for measuring changes in poverty levels attributable to UNCDF programme achievements (Malawi, Senegal, Uganda) and to mobilize additional internal and external resources to augment per capita investment levels. This is particularly important for local governments that have proved their capacity to manage larger resource flows. In making these recommendations, the evaluations caution that establishing a causal connection between UNCDF interventions and poverty alleviation is fraught with attribution problems common in many evaluations of development activities.

12. The overall outcome achievements shown in table 1 refer to the results of UNCDF in piloting institutional reforms at the local government level, using modest capital funding as an incentive for change, and improving national policy frameworks by mainstreaming those results. Overall, UNCDF achieved a performance rate of 85 per cent in 2007, thus achieving its targets in the decentralization and local development practice area. This is a significant achievement given the pressures encountered in simultaneously expanding geographical coverage of UNCDF interventions.

13. Overall, the targets for participatory local planning (outcome 1.1) were fully achieved, but performance dropped from 92 to 77 per cent. This can partly be explained by the start-up of a number of new programmes that appear to have set overambitious targets for the year. However, evaluations point to another, longer-term concern that may affect performance; namely, the sustainability of tested planning systems in terms of the length and cost of the planning process. There is also evidence that the needs of local communities and women could be met more effectively through enhanced implementation of plans (Uganda). On the positive side, evaluations indicated that the needs and priorities of the rural poor were in fact taken into account in the planning processes of local governments, and that more transparent processes were promoted and are taking root (Rwanda, Senegal).

14. Performance was fully satisfactory in the area of transparent public expenditure management (outcome 1.2). Evaluations underscored the successful testing of innovations in public expenditure management systems in countries across different regions. In West Africa, the financial performance of local governments improved significantly through a growth in local tax revenues (Benin, Guinea, Senegal). In Asia, public expenditure management tools successfully tested at the local level were adopted officially for application at the national (Bangladesh) and district levels (Laos, Timor-Leste). The evaluation in Ethiopia indicated increased awareness on the part of local residents of the twin need for accountability by government officials and elected representatives, and transparency in the political and policy processes – both crucial elements to improved local governance.

15. The high level of target achievement with respect to investments in infrastructure and service delivery (outcome 1.3) indicates that local development programmes succeeded in improving the access of rural communities to pro-poor infrastructure and social services. Similarly, the 'fully achieved' target of outcome 1.4 indicates that UNCDF interventions have led to an enhanced capacity by local governments in managing natural resources. Local economic development (outcome 1.5) emerged as a new area of emphasis within the local

development portfolio, with activities being pursued in Guinea, Senegal, Tanzania, Uganda, Mozambique, and other countries.

Table 1. Achievements of 2007 targets for the local development practice area

Core results and outputs	Overall target achievement in 2006 (%)	Overall target achievement in 2007 (%)	Performance rating of
Core result 1. Pilots for public expenditure management infrastructure and service delivery successfully implemented.			
Outcome 1.1: Effective, participatory assessment of demand for infrastructure and service delivery by local governments in UNCDF pilots.	92	77	Fully achieved
Outcome 1.2: Increased expenditure on infrastructure and service delivery effectively, equitably and transparently managed by local governments in UNCDF pilots.	78	81	Fully achieved
Outcome 1.3: Increased more effective supply and maintenance of basic socio-economic infrastructure and services by local governments, service providers and local communities in UNCDF pilots.	90	85	Fully achieved
Outcome 1.4: Sustained management of the local natural-resource base ensured by local governments in UNCDF pilots.	67	77	Fully achieved
Outcome 1.5: Enabling environment for local economic development established by local governments in UNCDF pilots.	*	95	Fully achieved
Core result 2. Pilot models and lessons leveraged for policy impact and replication.			
Outcome 1.6: Government amendments to policy, legal and regulatory frameworks reflect lessons from UNCDF pilots.	75	88	Fully achieved
Outcome 1.7: UNCDF pilots scaled up through replication by other funding entities and/or government budgetary resources.	92	90	Fully achieved
Total	85	86	Fully achieved

Data source: UNCDF management information system data from 20 programmes, 2007

*Outcomes for which no targets were set in 2006, but for which targets were presented for 2007.

16. UNCDF performed well in terms of the linkages between targeted results at the programme level and their contribution to policy impact and replication at the national level (outcomes 1.6 and 1.7). The Ministry of Finance in Nepal, for example, adopted nationally the performance-based funding of District Development Committees and associated

assessment methodologies as piloted, with a formal request to support the Government of Nepal in developing a sector-wide approach for local government funding. Another example is the Local Authorities Financial and Institutional Management System[1]. After several years of tests, the system was successfully introduced in six countries in West Africa and used by 43 local governments. Financial commitments from the African Development Bank, the Danish International Development Agency and the European Union, will permit expanded use of this system in specific countries of the subregion.

17. Gender mainstreaming in local development reflects another important area of increased attention in 2007. The evaluation in Uganda found that – even with specific efforts made in the programme to achieve equitable gender participation – there was the persistent problem that women did not speak at the meetings, especially if their views did not coincide with those of men. Much more attention needs to be paid to ensuring that women have a 'voice' at such meetings, and that their ideas are translated into gender-equitable investments at the local level. The joint UNIFEM-UNDP-UNCDF programme for gender-equitable local development, approved in 2007, will focus specifically on this issue.

18. Table 2, below, seeks to clarify the allocation of funds to particular features of the decentralization and local development practice within ongoing programmes. The table illustrates that, while the total expenditure in local level investments and capacity building in 2007 amounts to 62 per cent of total expenditure, only 38 per cent relates to classical capital investments through the local development fund mechanism. 24 per cent was devoted to institution and capacity development connected with the policy framework, planning processes or organizational structures. The policy impact of UNCDF interventions is harder to discern as a specific expenditure category; it is presented here as 7 per cent. Technical and operational support includes all UNCDF technical and managerial staff performance, including project personnel and country office staff, and regional and headquarters technical and programme management missions.

19. The variance between the regions in table 2 with regard to capital investment and technical and operational support underscore regional differences among local development programmes. While funds in West Africa are used up to 51 per cent for the support to local governments to finance their investment decisions, the stronger move towards national programmes and sector-wide approaches in East Africa and Asia has required a relatively higher level of expenditures for activities related to policy impact and product innovation. In a sector-wide approach environment, block grants previously covered by UNCDF during the pilot phase are more likely to be co-financed either by national resources (Bangladesh, Nepal, Tanzania, Uganda), or other development partners with higher funding capacity such as the World Bank and bilateral donors. The relatively high level of technical and operational support in the Southern and East Africa region can also be explained by the relatively high start-up costs of programmes in post conflict countries such as Somalia, Burundi, and the Democratic Republic of the Congo.

[1] The document is available at http://www.uncdf.org/english/local_development/docs/thematic_papers/SAFIC/index.php.

Table 2. Expenditure breakdown in local development programmes (as a percentage)

West Africa	51	20	4	25	
Eastern/Southern Africa	33	27	5	35	
Asia (includes Yemen)	30	25	12	33	

Source: UNCDF data from 20 programme, 2007

20. Table 3 provides an overview of results achieved during 2007 concerning the outreach of UNCDF local development investments. Approximately 3.1 million people benefitted directly from investments made by local governments using UNCDF-financed local development funds. During the year, UNCDF provided investment resources for 1,863 small-scale infrastructure projects, through 518 local governments. This is an average of 93 investments per country, at an average cost per investment of $3,543. Taking into account the $6.6 million used in 2007 (see table 4), the average UNCDF investment per capita decreased from $2.32 to $2.13. Fiscal transfers, local revenues and investment resources received through parallel channels (line ministries and other development partners) augmented the actual amount of investments available for approved local development plans.

Table 3. Outreach of UNCDF local development investments during 2007

West Africa	8	251	31	877	0.7
Eastern/Southern Africa	5	73	14	165	1.3
Asia (includes Yemen)	5	147	29	764	1.0
Latin America	2	47	23	57	0.1

Source: UNCDF data from 20 programmes (countries without capital investments in 2006 excluded; accurate user rates available from eight programmes; other programmes estimated).

21. Table 4 demonstrates how capital grants were used in response to local decision-making within the annual, local government investment plans. Markets, agriculture and natural

resource management dominated 2007, with 43 per cent of investments made by local governments. The other significant area was water supply, at 30 per cent. Thus, 73 per cent of investment was devoted to matters central to the rural economy, and also, increasingly, to the interface between rural and urban in the form of markets. The dominant feature here is providing essential elements for local economic activity to flourish. In addition, education and health, emphasizing pro-poor and gender-equitable local development, remain the core of local development support, thus supporting the achievement of the Millennium Development Goals at the local level.

22. The operation and maintenance of investments remains a matter of concern as highlighted by external evaluations carried out in 2007. In Rwanda, for example, while local public infrastructure and social service investments were largely delivered as planned, the recurrent costs related to the maintenance of these investments was not taken into account systematically in local investment decisions. However, there is evidence that programmes in 2007 place greater emphasis on operation and maintenance costs related to investments (Ethiopia). Final evaluations in Benin, Guinea, Nepal and Senegal showed cumulative positive results, with 80 per cent of investments benefitting from adequate operation and maintenance arrangements.

Table 4. Expenditure and types of local development investments during 2007

Type of investment	No. of projects	Investment (in $ million)	Average unit cost (in dollars)	Percentage of projects (% investment)
Education	450	0.85	2,013	12 %
Health	135	0.38	3,553	5 %
Water supply	428	2.02	4,754	30 %
Local governments, community facilities	46	0.10	2,193	1 %
Markets, agriculture, natural resources management	535	2.70	5,292	43 %
Roads, bridges, culverts	269	0.55	2,457	9 %
Total				

Source: UNCDF data from 16 programmes. Accurate user rates available from eight programmes; other programmes estimated.

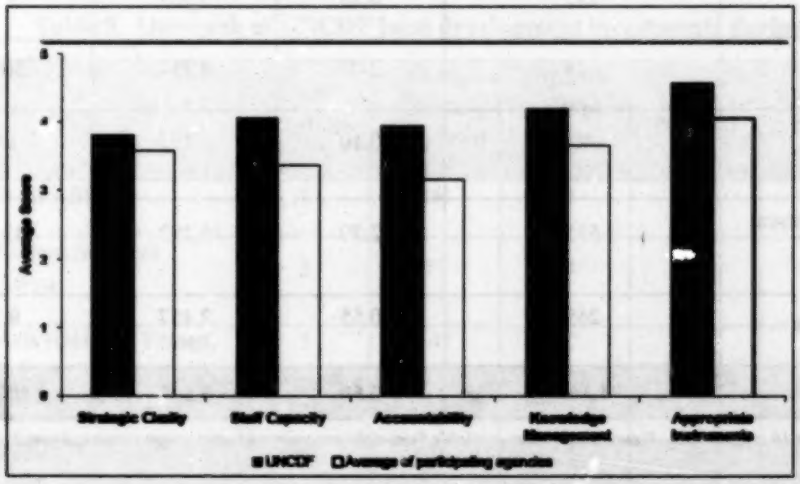
B. Performance analysis for sub-goal 2: microfinance

23. In its microfinance practice area, UNCDF supports the development of inclusive financial sectors that provide a broad range of affordable financial services to poor and low-income families, and small and micro-enterprises in the LDCs. This is an effective means of contributing on a sustainable basis to poverty reduction and to the achievement of the Millennium Development Goals.

24. In 2007, applying its inclusive finance sector development approach, UNCDF expanded its inclusive finance activities to thirteen additional LDCs, in line with the objective for geographical expansion set forth in the UNCDF business plan. With the formulation of eight new inclusive finance programmes, the number of LDCs supported in their national efforts to build an inclusive financial sector increased to 20, out of which 12 are in sub-Saharan Africa, seven in Asia (five LDCs covered via a joint UNDP-UNCDF regional programme for the Pacific Islands), and one in the Arab States region. The next stage – making the new programmes operational and approving investments in financial service providers (FSPs) will require considerable effort in 2008. UNCDF projects that 26 LDCs will be benefiting from UNCDF support in the area of inclusive finance by the end of 2008.

25. In 2007, UNCDF was also among the initial 7 of the 33 members of Consultative Group to Assist the Poor (CGAP), the well-established donor group in microfinance, who participated in the pilot of the CGAP 'SmartAID Index'. UNCDF received a rating of 83 out of 100 points, placing it among the leading donor agencies in terms of aid effectiveness in microfinance.[2] The Fund received strong marks on all five elements of the index, which are: strategic clarity, staff capacity, accountability, knowledge management and appropriate instruments (see figure 4). The full report is available on the UNCDF website at www.uncdf.org.

Figure 1: UNCDF Scores on SmartAID Evaluation, by element



[2] Eighty-six (86) was the top score received by any participating agency. More information on CGAP and the SmartAID Index can be found at: http://www.cgap.org/portal/site/CGAP/menuitem.693e7785c87ea9a167808010591010a0/

Table 5. Achievements of 2007 targets in the microfinance practice area

[illegible]	[illegible]	[illegible]
Core result: established sustainable retail intermediaries providing a range of financial services to low-income households		
Outcome 2.1: Increased outreach of UNCDF-supported financial intermediaries to low-income households	Target: 1,162,722 clients Result: 1,171,306 clients (101 %)	Exceeded expectations
Outcome 2.2: Increased breadth and depth of services provided by UNCDF-supported financial intermediaries to low income households	*	*
Outcome 2.3: Increased sustainability and efficiency of UNCDF-supported financial intermediaries serving low-income households	22 of 29 FSPs or 76% ** (Trend profitability) 11/29 FSPs or 38% (Portfolio quality:)	Fully achieved Below expectations
Core result: supporting industry infrastructure for delivery of financial services to low-income households established		
Outcome 2.4: Local financial-sector supporting infrastructure in place	12/12 countries or 100%	Fully achieved
Outcome 2.5: Increased visibility and transparency of UNCDF-supported financial institutions	18/29 FSPs or 62%	Partly achieved
Core result: Enabling environment for building inclusive financial sectors fostered		
Outcome 2.6: Increased capacity of government to support conducive policy environmnent for an inclusive financial sector	13/15 countries or 87%	Fully Achieved
Outcome 2.7: Increased capacity of regulatory and supervisory authorities to develop conducive legal framework for an inclusive financial sector	11/13 countries or 85% 29/29 FSPs reporting to Central Bank or 100%	Fully Achieved
Outcome 2.8: Nationally-owned government and donor action plans exist in support of building inclusive financial sectors	5/13 countries or 38%	Below Expectations
[illegible]	76%	Fully achieved

FSP = financial service provider

* Reporting on indicator 2.2 will be captured by the national household surveys that UNCDF will carry out in partnership with the World Bank under the data project. Reporting of results will take place after baseline and follow-up surveys have been completed.

** Indicator used to measure profitability has been changed compared to 2006 in view of data collection issues.

26. As shown in table 5, above, UNCDF achieved a good overall performance of 76 per cent in its ongoing inclusive finance activities. In terms of outreach, that is, the number of people with improved access to financial services (outcome 2.1), performance exceeded expectations: the 29 financial service providers supported by UNCDF collectively exceeded their growth targets by 8,534 clients. Outreach has shown steady annual increases: from a baseline of 379,018 clients in 2004 to 438,272 in 2005 and 616,035 in 2006, the number of active clients at the end of 2007 amounted to 1,171,306, 68 per cent of whom

were women. This represented an increase in outreach of on average 45 per cent per year over the three-year period of the UNCDF business plan. This high level of annual growth in outreach will need to continue for UNCDF to meet its target of 2.1 million active clients in 2008 (at least 50 per cent women) and 6.3 million by 2011.

27. Results on the sustainability and efficiency of financial service providers showed positive trends with need for additional work on portfolio quality (outcome 2.3). The large majority of the 29 financial service providers reporting had a positive trend toward profitability in 2007 and are on the path to financial sustainability. Only four of these had actually achieved profitability, confirming that UNCDF is taking risks and investing in younger, unproven institutions[3]. Eleven of the 29 financial service providers supported by UNCDF meet the international standard for strong portfolio quality (portfolio-at-risk at 30 days of less than 5 per cent). However, 18 have a portfolio-at-risk of less than 7.5 per cent, an acceptable level. More than half of the financial service providers with a portfolio-at-risk higher than 10 per cent were concentrated in one country (Guinea Bissau), reflecting the difficult conditions under which UNCDF works and the type of institutions it supports. Stronger portfolio monitoring and developing repayment capacity will be a key focus of UNCDF technical support in 2008, the target being to have at least 50 per cent of financial service providers meet the targeted level of portfolio-at-risk at 30 days below 5 per cent by the end of 2008.

28. Performance remained strong in terms of the local financial sector supporting infrastructure (outcome 2.4). All of the countries assisted have a supporting industry infrastructure primarily in the form of national associations and networks of financial service providers. In addition, 82 per cent of the financial service providers supported by UNCDF belong to a national association or network. These two results clearly show that the providers recognize the importance of collaboration for purposes of advocacy, standard-setting and knowledge management. In eleven LDCs, UNCDF provided direct support to strengthen the institutional capacities of the national associations, either in the form of grants or by ensuring their inclusion in training activities and the formulation of national strategies.

29. Sixty-two per cent of financial service providers are reporting to the Microfinance Information Exchange Market (www.themix.org), the microfinance industry standard database for capturing financial service provider performance. This is up 12 per cent from the previous year. Some of the more isolated or weaker providers have difficulty posting their data and will require initial UNCDF support to do so. Sixty-two per cent of the providers had industry-standard audits or ratings (outcome 2.5), reflecting the niche where UNCDF is working. That niche consists almost exclusively of countries at the start-up or emerging phase of sector development, including post-conflict countries. Many of these countries need to have their audit capacity strengthened, a key element of sector development programmes.

30. With support from UNCDF, almost all the countries have increased the capacity of their governments to support a policy environment conducive to inclusive finance (outcome 2.6). In addition, 85 per cent (11 of 13) of regulatory and supervisory authorities have increased their capacity to develop a conducive legal and regulatory framework. All financial service providers supported by UNCDF are reporting performance to regulatory authorities, to

[3] Five to seven years is considered a reasonable span of time for a FSP to achieve financial sustainability (profitability).

increase their understanding of the sector and its development (outcome 2.7). This strong achievement at the macro level underlines the impact of UNCDF work at the policy level in all countries where it has promoted the inclusive financial sector approach.

31. Almost all active sector development programs have as targets the development of joint government and donor strategies (outcome 2.8). The percentage of countries with approved action plans has decreased from eighty-three per cent (5 of 6 countries) in 2006 to 38 per cent (5 of 13 targeted countries) in 2007. There are several factors contributing to this. First, in line with the Paris Declaration on Aid Effectiveness, UNCDF seeks to support national ownership and engage all development partners in the design process. Hence, considerable time was devoted to the formulation and approval processes of new programmes for 13 additional LDCs in 2007. Second, for approved programmes the processes of developing the action plans are nationally led, with broad participation among the stakeholders. The combination of staff time required to support the geographical expansion, and the need for consultative processes to approve action plans, meant that the targets set at the beginning of the year proved over-ambitious. UNCDF will limit expansion in this area for 2008 and focus on high-quality support to existing programmes.

32. Two additional initiatives have contributed to the achievement of the above-mentioned core results: the United Nations Advisers Group on Inclusive Financial Sectors and the activities of the steering committee of the Dakar Declaration on Financial Inclusion. The United Nations Advisers Group on Inclusive Financial Sectors, hosted by UNCDF, was established in June 2006 for a term of two years. In 2007, the Advisers Group was instrumental in developing five country case studies on the engagement of commercial banks in inclusive finance and a draft handbook, *The Road to Financial Inclusion,* outlining ways in which the private sector can be engaged in enhancing access to financial services. Both the case studies and the handbook will be important advocacy tools for securing formal private-sector commitment to inclusive finance. The Advisers Group is expected to deliver a final statement on the results of its activities, including key messages, at the end of June 2008.

33. Following the first United Nations Conference on Financial Inclusion in Africa held in Dakar in June 2006, a high-level, multi-stakeholder steering committee was established to support the implementation of the Dakar Declaration on building inclusive financial sectors in Africa. The steering committee is co-chaired by the New Partnership for Africa's Development, and the Central Bank of West African States. UNCDF organized two regional meetings for the steering committee in 2007, leading to the finalization of its detailed work plan and institutionalization of the steering committee within the African Rural and Agricultural Credit Association, a leading network that will host the secretariat. The steering committee will play a lead role in advocacy on issues related to financial inclusion in Africa.

34. Finally, it is useful to mention the results related to the role of UNCDF as the policy and technical adviser to the UNDP group in general, including in non-LDCs, to ensure consistent application of the best microfinance practices. In 2007, UNCDF supported UNDP inclusive finance activities in 11 countries where UNCDF did not have investment, including two non-LDCs. UNCDF continues to work with UNDP to ensure adherence to the UNDP microfinance policy and thereby the quality of UNDP programming in microfinance.

II. Management results

C. Performance analysis for sub-goal 3: organizational performance

35. The UNCDF performance framework for measuring organizational performance was developed in 2005 based on the framework used by UNDP in preparing its balanced scorecard for country offices. Performance is measured according to four different perspectives: learning and growth, client satisfaction, internal efficiency and financial resources. For each perspective a number of strategic objectives were identified that reflect the UNCDF organizational strategy as outlined in its business plan. Each strategic objective is monitored by means of indicators and targets.

36. Table 6 provides an overview of the 2007 results on organizational performance. The overview contains about half of the strategic objectives and indicators used in the UNCDF balanced scorecard, the remainder being used mainly for internal management purposes.

Table 6. Achievement of 2007 targets for organizational performance

Perspective	Strategic objective	Indicator	2006 result	2007 target	2007 result
Learning and growth	Expand geographically to more LDCs, including post-conflict LDCs	LDCs with UNCDF programmes (> $50,000 investment/year)	28 LDCs	35 LDCs	31 LDCs
		Post-conflict LDCs with UNCDF programmes	13 LDCs	17 LDCs	14 LDCs*
	Increase average investment size	Investment per LDC per year	$0.85 million	$1.1 million	$0.86 million
Client satisfaction	Improve strategic partnership with UNDP and the rest of the United Nations system	UNDP country office satisfaction with overall quality of partnership with UNCDF	60 %	80%	To be determined**
Internal efficiency	Increase staff at regional and country level to be closer to clients and investments	Ratio of professional staff posted at country and regional levels	71%	75%	70%
	Strengthen United Nations coordination	Integration of UNCDF in United Nations country-level programming framework	28 LDCs	35 LDCs	31 LDCs
	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	22%	21%	22%
		UNDP country office satisfaction with timeliness of operational support	44%	80%	To be determined**
	Strengthen 'people management'	Staff perception	70 %	75%	75%

Financial resources	Achieve resource mobilization targets	Regular resources mobilized	$13.9 million	$18.5 million	$15.6 million
		Other resources mobilized	$8.1 million	$18.5 million	$12.9 million
	Ensure delivery against plan	Delivery against approved annual spending limits	84%	90%	84%

* Based on a comparison of the 2006 and 2007 LDC lists.

** Results of surveys in these areas had not yet been received by the time this report was finalized. They will be included when available.

37. In 2007, UNCDF had ongoing programmes with investments of $50,000 or more in 31 LDCs, an increase of three LDCs compared to 2005. With the approval of new programmes in early 2008, UNCDF was able to reach the target of 35 LDCs with approved UNCDF programmes by the end of March 2008. The total number of approved joint programmes with UNDP grew to about forty in 2007, reflecting the deliberate choice of UNCDF to programme together with UNDP. Increased availability of core and non-core resources enabled average expenditure per LDC to stay roughly at the same level, but did not permit a substantial increase in expenditure per LDC. With the further increase of total resources foreseen for 2008, it is expected that the expenditure per LDC will pass the $1 million mark in 2008.

38. A major corporate achievement in 2007 was the strengthened strategic partnership between UNDP and UNCDF. The efforts made in bringing the two organizations strategically and operationally closer together resulted in a guidance note signed in November 2007 by UNDP and UNCDF and officially sent to all UNDP country and regional offices (see DP/2008/12 for details). The Executive Board, at its first regular session 2008, expressed satisfaction with the progress made in finalizing the details of this strategic partnership.

39. As part of its efforts to increase internal efficiency, UNCDF completed the transition period that had started after the 2005 change management process. This process has encompassed a strengthening of the regional and country-level presence of UNCDF, in line with its strategy of ensuring a more decentralized organization able to provide support closer to its clients. By the end of 2007, 70 per cent of UNCDF professional staff were posted at the country or regional level, co-located with UNDP country offices or regional service centres in Dakar, Johannesburg and Bangkok. UNCDF maintained its level of administrative expenditures at 22 per cent.

40. The morale and commitment of UNCDF staff were very high, as reflected in the global staff survey. Staff perception, an indicator used by both UNDP and UNCDF to measure overall staff satisfaction, reached its target level of 75 per cent. This is a 5 per cent improvement over the score in 2006, and a 10 per cent improvement compared to 2005. At the same time, it was clear that work pressure was still on the high side, especially for staff at the regional level, given the dual demands of an expanding portfolio and the need to deliver good results.

41. Contributions to UNCDF regular and other resources increased by nearly 30 per cent in 2007 – from $22.0 million in 2006 to approximately $28.5 million in 2007. Contributions to regular resources increased from $13.9 million in 2006 to $15.6 million in 2007, an increase of 12 per cent, as a result of increased contributions from existing donors as well as from donors that previously did not support UNCDF. Still, given the excellent performance record of UNCDF and enhanced resource mobilization efforts that began in late 2005, it was somewhat disappointing that UNCDF was not able to reach its 2007 regular resources target of $18.5 million, set in 2005. The appreciation of the Executive Board for the work of UNCDF did, however, contribute to a decision taken by the Board at its second regular session 2007 requesting UNDP, on an exceptional basis, to provide $6 million out of its regular resources to UNCDF in 2008.

42. The most growth was observed in contributions to other resources, which increased by 59 per cent, from $8.1 million to $12.9 million. In line with the guidance note signed with UNDP in November 2007, UNCDF made a major effort to apply the United Nations Development Group (UNDG) pass-through funding modality for joint programmes in a number of countries. This resulted in $1.9 million of contributions to other resources for programmes in Timor-Leste and Laos being channelled to UNCDF via UNDP as administrative agent. The sometimes limited knowledge of UNDP country offices and country-based donor representatives of the UNDG joint programme modality, proved to be a delaying factor in concluding pass-through agreements. Ultimately, the hurdles were overcome in all but one specific country case.

III. Financial analysis

43. As indicated above, contributions to UNCDF regular resources amounted to $15.6 million in 2007. Combined contributions to regular and other resources totalled approximately $28.5 million, an increase of approximately 30 per cent compared to 2006.

44. Table 7 contains key information concerning UNCDF's expenditure trend for the period 2001-2007. In 2007, there was a continued increase in programme expenditures against regular resources compared to 2006. Regular resources expenditures increased from $16.8 million in 2006 to $19.0 million in 2007. Other resources expenditures increased as well and accounted for one-third of total programme expenditures.

45. Overall, headquarters expenditures equalled $10.0 million during the biennium 2006-2007, out of which $9.6 million was funded from the UNDP biennial support budget allocation for UNCDF and $0.4 million against UNCDF core resources. The increase in headquarters expenditure, from $4.6 million in 2006 to $5.4 million in 2007, was largely attributable to administrative reasons, namely, (a) the settlement in 2007 of outstanding reimbursements to UNDP for services delivered the year before; and (b) a higher overall level of personnel expenditures as positions that had remained vacant in 2006 were filled.

Table 7. Expenditure trends, 2001-2007 (in millions of dollars)

Expenditures	2001	2002	2003	2004	2005	2006	2007
Programme expenditures	$33.9	$24.8	$21.1	$22.9	$19.2	$25.2	$28.7
- of which regular resources	32.3	22.6	16.3	14.9	11.6	16.8	19.0
- of which other resources	1.6	2.2	4.8	8.0	7.6	8.4	9.7
Headquarters expenditures	6.0	5.5	6.2	5.3	6.7	4.6	5.4
Total	$39.9	$30.3	$27.3	$28.2	$25.9	$29.8	$34.1

Source: Financial statements for UNCDF

46. Table 8 shows that in 2007 the Africa region accounted for 75 per cent of total UNCDF expenditures at the field level and Asia for 17 per cent. With the start-up of a number of new UNCDF programmes in both local development and inclusive finance, UNCDF spent $1.3 million on its research and development agenda, focusing on knowledge management and developing new product innovations.

Table 8. Programme expenditures by region and practice area (in millions of dollars)

Region/specific purpose	Local development	Microfinance	Total
Africa	$ 15.9	$ 4.4	$ 20.3
Asia	4.5	0	4.5
Arab States	1.1	0	1.1
Latin America	1.3	0	1.3
Research and development	1.0	0.3	1.3
UN Advisors Group	0.0	0.2	0.2
Total	$ 23.8	$ 4.9	$ 28.7

47. Regarding its liquidity and reserve position, UNCDF maintained its operational reserves at $22.6 million, the same level as 2006. In addition, total unexpended resources increased with three million to approximately $41.0 million at the end of 2007. Accordingly, UNCDF was able to accomplish the development, management and financial results set forth above while sustaining its liquidity and financial soundness.

D. Implementation of the cost-recovery policy

48. The UNCDF cost-recovery policy was adopted by the Executive Board in January 2008. In line with decision 2008/04, this section reports on the implementation of the UNCDF cost-recovery policy, including the impact of applied rates on regular and other resources, as well as the use and allocation of indirect costs recovered.

49. While awaiting the formal adoption of its cost recovery policy, UNCDF applied the general management support rate of 5 to 7 per cent, used by UNDP and other United Nations organizations, in all agreements for contributions to other resources signed in the 2006-2007 period. This alignment of general management support rate also ensured that in joint programmes with UNDP, the same rate would automatically be applied to contributions to other resources received for the UNDP and UNCDF components in joint programmes. Since January 2008, UNCDF has applied the 7 per cent harmonized rate.

50. The actual average general management support rate for contributions received to UNCDF other resources in 2006-2007 stood at 6.7 per cent. With overall contributions to UNCDF other resources amounting to $21.0 million during the two-year period, $1.41 million in general management support income should have been generated. The actual extra-budgetary income generated from general management support for the biennium 2006-2007 was only $0.99 million leaving general management support in the amount of $0.41 million for contributions to UNCDF other resources received in late 2007 to be credited in the first half of 2008.

51. The actual extra-budgetary income generated in the 2006-2007 biennium was used partly to fund a strengthening of the country-level presence of UNCDF. While $0.36 million was used for this purpose, the remaining $0.63 million was allocated to permit a growth in extra-budgetary balances. It was planned that this would – over the course of two years – would make it possible to recruit additional long-term staff at country, regional and headquarters levels to provide the expanded operational and programme support required for the growing programme portfolio financed out of other resources. At the same time, immediate country-level staffing needs were addressed by a rapid growth in the number of Junior Professional Officers and other donor-funded professional positions at the country level.

Table 9. Variable indirect costs for regular and other resources based on actual expenditures for 2006-2007 period (in millions of dollars)

Programme expenditures, 2006-2007	36,219	18,215	54,434
Biennial support budget expenditure 2006-2007	9,593	361	9,954
Less base structure	(6,603)		(6,603)
Variable indirect costs	2,990	361	3,351

52. Based on the extra-budgetary reserves built up during the 2006-2007 period and the general management support income projection for 2008-2009, UNCDF was able, early in 2008, to create additional operational and programme support posts at country, regional and headquarters levels to support the growing portfolio. Overall, total expenditures against other resources generated from in income are planned to reach $2.5 million during the 2008-2009 biennium (see table 10).

Table 10: Variable indirect costs for regular and other resources based on planned expenditures for 2008-2009 period (in millions of dollars)

Category	Regular resources	Other resources	Total
Programme expenditures, 2008-2009	50,000	45,000	95,000
Biennial support budget expenditure 2008-2009	10,200	2,500	12,700
Less base structure	(7,020)		(7,020)
Variable indirect costs	3,180	2,500	5,680
Variable indirect costs as % of programme	**6 %**	**6 %**	**6 %**